SENATE BILL REPORT
2ESHB 1139

As of February 28, 2008

Title: An act relating to the local sales and use tax that is credited against the state sales and use tax for cities to offset municipal service costs to newly annexed areas.

Brief Description: Modifying the local sales and use tax for annexation service costs.

Sponsors: House Committee on Finance (originally sponsored by Representatives McDermott, McIntire, Springer, Cody, Ericks, Santos, Hasegawa, Simpson, Pettigrew and Kenney).

Brief History: Passed House: 2/12/08, 64-33.
Committee Activity: Ways & Means: 2/29/08.

SENATE COMMITTEE ON WAYS & MEANS

Staff: Dean Carlson (786-7305)

Background: Under the state's Growth Management Act, counties establish urban growth areas (UGAs) in collaboration with cities. Within a UGA, counties are the providers of regional services, and cities are the providers of local services, until the UGA either becomes part of an existing city through annexation or incorporation. In 2004 the Legislature directed the Department of Community, Trade and Economic Development (CTED) to study the progress of annexation and incorporation in six urban counties, and to identify both barriers and incentives to fully achieving annexation or incorporation of the UGAs in these counties. Lack of funding for municipal services during the transition period following annexation was one of the barriers identified by cities.

Last year, legislation was enacted allowing a city to impose a sales and use tax to provide, maintain, and operate municipal services within a newly annexed area.

There are several requirements that have to be met before a city may impose the tax. The city must:
1) have a population less than 400,000;
2) be located in a county with a population greater than 600,000;
3) annex an area consistent with its comprehensive plan;
4) commence annexation of an area having a population of at least 10,000 prior to January 1, 2010; and
5) adopt a resolution or ordinance stating that the projected cost to provide municipal services to the annexation area exceeds the projected general revenue the city would otherwise receive from the annexed area on an annual basis.

The tax is a credit against the state sales tax, so it is not an additional tax to a consumer.

The tax rate is 0.1 percent for each annexation area with a population between 10,000 and 20,000 and 0.2 percent for an annexation area over 20,000. The maximum cumulative tax rate a city can impose is 0.2 percent. The tax must be imposed at the beginning of a fiscal year and must continue for no more than ten years from the date it is first imposed.

All revenue from the tax must be used to provide, maintain, and operate municipal services for the annexation area. The revenues may not exceed the difference of the amount the city deems necessary to provide services for the annexation area and the general revenue received from the annexation. If the revenues do exceed the amount needed to provide the services, the tax must be suspended for the remainder of the fiscal year.

Prior to March 1 of each year, the city must notify the CTED of the maximum amount of distributions it is allowed to receive for the upcoming fiscal year.

A city may not impose the tax before July 1, 2007.

Summary of Bill: The requirement that a city have a population less than 400,000 in order to impose the sales and use tax is eliminated.

Any city with a population greater than 400,000 that annexes an area with a population of at least 10,000 may impose the sales and use tax at a rate of 0.035 percent for each annexed area. The 0.035 percent rate is also the cumulative rate maximum if a city annexes multiple areas. A city with a population over 400,000 may not impose the sales and use tax unless the city reaches an agreement with a city over 30,000 in population and adjacent to the annexation area, on the boundaries of the annexation area.

A city with a population greater than 400,000 must share 20 percent of the tax with an adjacent city that has a population greater than 30,000 as determined by the Office of Financial Management population estimate immediately prior to the first imposition of the tax. The total distributions to both cities may not exceed $3 million.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.